

## Message Text

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ORIGIN NEA-11

INFO OCT-01 EUR-12 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00  
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05  
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-07  
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 /139 R

DRAFTED BY NEA/IRN:M JOHNSON/NEA/ARP:J W TWINAM:LVB  
APPROVED BY NEA:W R CRAWFORD  
NEA/IRN:M GREENE  
L/NEA:D H SMALL

-----099943 140113Z /73

P R 140053Z MAY 78  
FM SECSTATE WASHDC  
TO AMEMBASSY ABU DHABI PRIORITY  
AMEMBASSY TEHRAN  
INFO AMEMBASSY JIDDA  
AMEMBASSY KUWAIT  
AMEMBASSY LONDON  
AMEMBASSY MANAMA  
AMEMBASSY MUSCAT  
AMEMBASSY DOHA

C O N F I D E N T I A L STATE 122746

E.O. 11652: GDS

TAGS: ENRG, EINV, IR, TC

SUBJECT: TAX AND ROYALTY PROBLEM FOR CRESCENT PETROLEUM

REFERENCES: (A) ABU DHABI 1281 AND PREVIOUS, (B) TEHRAN  
3404

1. SHARJAH/BUTTES COUNSEL ELY, ACCOMPANIED BY REPRESENTA-  
TIVES FROM BUTTES AND ASHLAND, CALLED ON DEPARTMENT MAY 11  
FOR DISCUSSION OF CRESCENT PETROLEUM DISPUTE WITH SHARJAH.  
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ELY COVERED MUCH OF SAME GROUND REPORTED IN REFTTEL A AND  
NOTED THAT UNDER CONTRACT TERMS, CRESCENT HAS RIGHT TO  
MOVE TO NEXT STEP IN ARBITRATION AFTER MAY 28 AND FEELS  
UNDER PRESSURE TO DO SO REASONABLY SOON THEREAFTER IN ORDER  
TO MAINTAIN THE SERIOUSNESS OF ITS POSITION. COMPANY REPS  
PROVIDED US COPY OF DRAFT LETTER TO SHEIKH SULTAN WHICH  
STATES INTER ALIA THAT IF RULER HAS NOT NOMINATED AN ARBI-

TRATOR BY MAY 28 (WHEN SIXTY-DAY PERIOD FOLLOWING REQUEST TO ARBITRATE EXPIRES), CRESCENT WILL ASK PRESIDENT OF INTERNATIONAL COURT OF JUSTICE TO APPOINT ONE FOR SHARJAH.

2. ELY AND REPRESENTATIVES AGAIN OPINED THAT TOUGH LINE OF SHARJAH IN REJECTING ARBITRATION IS RESULT OF IRANIAN PRESSURES. ELY FOUND THIS STANCE DIFFICULT TO UNDERSTAND GIVEN MARGINALITY OF FIELD WHICH HAD PRESENT VALUE OF

SOMETHING LIKE DOLS 30 MILLION. THEY SUSPECTED OTHER, I.E., "POLITICAL" REASONS WERE BEHIND IRAN'S HARD-NOSED APPROACH. ELY MADE IT CLEAR COMPANY IS NO LONGER PROTESTING ECONOMICS PER SE WITH NIOC BUT RATHER LEGALITY OF IRANIAN-INSPIRED REFUSAL BY SHARJAH TO ARBITRATE. BUTTES REPS ALLEGED THAT IRANIANS WERE SOURCE OF VEILED NATIONALIZATION THREAT WHICH CRESCENT HAS NOW RECEIVED FROM SHARJAH. IF THIS HAPPENED, ELY FELT NIOC WOULD END UP AS OPERATOR SINCE SHARJAH LACKED EXPERTISE TO TAKE OVER FIELD. IT WAS NOTED THAT TO BEST KNOWLEDGE OF BUTTES, NIOC AND NOT GOI HAD BEEN THE VEHICLE OF PRESSING THE ALLEGED IRANIAN POSITION ON SHARJAH, BUT BUTTES REPS REMAIN CONVINCED GOI IS FULLY AWARE OF WHAT IS HAPPENING.

3. DEPARTMENT OFFICERS SHARED WITH ELY AND COMPANY OFFICIALS OUR UNDERSTANDING OF IRANIAN POSITION. WE NOTED POINTS MADE IN REF B ABOUT TAX RATES AND SUGGESTED CONFIDENTIAL

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THAT GOI MIGHT BE CONCERNED ABOUT MFN SITUATION ARISING.

4. FOR TEHRAN: SUBJECT TO EMBASSY'S VIEWS WE ARE INCLINED TO GIVE CREDENCE TO BUTTES' ASSESSMENT THAT NIOC HAS IN FACT BEEN THE FORCE BEHIND SHARJAH'S REFUSAL OF ARBITRATION AND CONSIDERATION OF NATIONALIZATION, BUT IT IS NOT CLEAR TO US WHETHER GOI IS APPROPRIATELY INFORMED OF NIOC'S ACTIONS OR WHY IRANIANS APPEAR TO BE PURSUING COURSE OF CONFRONTATION WITH RESPECT TO AN OIL CONCESSION WHICH SEEMS TO US TO BE OF MORE POLITICAL THAN ECONOMIC SIGNIFICANCE. WE THEREFORE WISH EMBASSY TO RAISE THIS PROBLEM AT APPROPRIATE POLITICAL LEVEL, NOTING THAT MATTER HAS PREVIOUSLY BEEN DISCUSSED IN TEHRAN WITH NIOC OFFICIALS. YOU SHOULD NOTE THAT USG TAKES NO POSITION ON THE MERITS OF THE FINANCIAL QUESTION IN DISPUTE BETWEEN BUTTES AND SHARJAH. USG DOES FEEL, HOWEVER, THAT ALL PARTIES CONCERNED WITH STABILITY OF GULF REGION HAVE AN INTEREST IN AMICABLE, OR AT LEAST ORDERLY, RESOLUTION OF THIS DISPUTE, BECAUSE WE ARE CONCERNED THAT A SITUATION IN WHICH SHARJAH CONCESSIONAIRE CEASES TO OPERATE OIL FIELD WILL RENEW SUSPICIONS ON ARAB SIDE OF THE GULF THAT IRAN IS PREPARED TO ENCROACH

UPON SHARJAH'S CIVIL ADMINISTRATION OF ABU MUSA, A KEY  
ELEMENT IN THE DELICATELY BALANCED ARRANGEMENT OF 1971.

YOU SHOULD ADD THAT BEYOND THIS, USG IS DEEPLY CONCERNED  
THAT SHARJAH IS NOW IN POSITION OF REJECTING COMPANY'S  
REQUEST FOR ARBITRATION, LEAVING US NO RECOURSE BUT TO  
CONSIDER USG'S POSITION ON THE BASIS OF ESTABLISHED  
POLICY AND INTERNATIONAL LAW. YOU SHOULD POINT OUT

TO GOI THAT WHILE WE ARE AWARE THAT THIS QUESTION IS ONE  
BETWEEN AN AMERICAN OIL COMPANY AND SHARJAH, THAT BEFORE  
WE PURSUE THIS QUESTION FURTHER WITH UAE GOVERNMENT OR  
RULER OF SHARJAH, WE WOULD APPRECIATE IRANIAN VIEWS ON  
WHY SHARJAH APPEARS SET ON REJECTING REQUEST FOR  
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ARBITRATION. IF GOI RESPONSE APPEARS TO PROVIDE OPPOR-  
TUNITY FOR DOING SO, YOU ARE AUTHORIZED TO SAY THAT USG  
WOULD WELCOME GOI'S TALKING TO SHARJAH ON THIS QUESTION  
IN AN EFFORT TO PERSUADE SHARJAH TO ADOPT A LESS CONFRONT-  
ATIONAL POSITION PERMITTING RESOLUTION OF THIS PROBLEM  
IN A MANNER SERVING INTERESTS OF ALL PARTIES CONCERNED.

5. FOR ABU DHABI: YOU SHOULD NOT AT THIS TIME SHARE  
WITH UAE AUTHORITIES OR SHARJAH ANY INFORMATION ON THE  
APPROACH WE ARE MAKING IN TEHRAN. UPON RECEIPT OF  
EMBASSY TEHRAN'S REPORT OF IRANIAN REACTION TO APPROACH  
OUTLINED PARA 4, DEPARTMENT WILL CONSIDER WHAT ADDITIONAL  
INTERVENTION YOU SHOULD MAKE.  
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## Message Attributes

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**TAGS:** ENRG, EINV, IR, TC  
**To:** ABU DHABI TEHRAN  
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